

# Roth Conversion with Reverse Mortgage

## Case Study



## Client Scenario

The client's a 72 year-old recently retired doctor. His income in retirement has dropped significantly, and he's in a lower tax bracket.

His advisor recommends a Roth Conversion of a \$3 million IRA. The conversion will be accomplished in 3 years at \$1 million in conversion per year.

Tax-bite for conversion is a total of \$480,000 over 3 years. The client has a \$1 million house, so the advisor recommends a HECM (Home Equity Conversion Mortgage), also known as a reverse mortgage. The HECM will provide approximately 85% of the tax bill.

## Results

- Client deploys an unused asset to manage the tax
- Most of the \$3 million in invested funds is retained
- Invested funds in Roth IRA not subject to RMDs
- Invested funds in Roth IRA can be withdrawn tax-free
- Invested funds in Roth IRA grow tax-free
- Invested funds in Roth IRA expected to provide more time in the market
- Reverse mortgage requires no monthly principal and interest payments for maximum cash flow

Calculations based on a 1-year CMT, annually adjusting program with an initial interest rate of 2.675%. Maximum APR (Annual Percentage Rate) 7.675% as of 05/21/21. Rates subject to change.

Borrower must maintain home as primary residence and remain current on property taxes, homeowner's insurance, the costs of home maintenance, and any HOA fees.

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Borrower must occupy home as primary residence and remain current on property taxes, homeowner's insurance, the costs of home maintenance, and any HOA fees Mutual of Omaha Mortgage, Inc. dba Mutual of Omaha Reverse Mortgage, NMLS ID 1025894, 3131 Camino Del Rio N 1100, San Diego, CA 92108. Subject to Credit Approval. These materials are not from HUD or FHA and the document was not approved by HUD, FHA or any Government Agency. For licensing information, go to: [www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org) Oregon Mortgage Lending License ML- 5208; Charges such as an origination fee, mortgage insurance premiums, closing costs and/or servicing fees may be assessed and will be added to the loan balance. As long as you comply with the terms of the loan, you retain title until you sell or transfer the property, and, therefore, you are responsible for paying property taxes, insurance and maintenance. Failing to pay these amounts may cause the loan to become immediately due and/or subject the property to a tax lien, other encumbrance or foreclosure. The loan balance grows over time, and interest is added to that balance. Interest on a reverse mortgage is not deductible from your income tax until you repay all or part of the interest on the loan. Although the loan is non-recourse, at the maturity of the loan, the lender will have a claim against your property and you or your heirs may need to sell the property in order to repay the loan, or use other assets to repay the loan in order to retain the property.